



## The Fiscal Context for the 2007-09 Budget

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This discussion offers revenue and caseload trends information as of June 2006.

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### **Strong recovery from the 2001 recession will continue through Fiscal Year 2007**

The economic recovery after the 2001 recession was the longest without a sustained increase in employment in postwar history. However, the Washington State economy finally exceeded its Fiscal Year 2001 non-farm payroll employment peak in Fiscal Year 2005. Washington non-farm payroll employment growth accelerated to 2.4 percent in 2005 from 0.7 percent in 2004. When figures become final, another fairly strong year is expected in 2006 with employment growth accelerating to a very solid 3.2 percent. This strong growth is in large measure due to stronger than expected growth in aerospace manufacturing employment and interest-rate fueled growth in construction employment and other housing and real estate related activity. Momentum from these sectors is expected to keep employment growth at a relatively high 2.9 percent in Fiscal Year 2007.

### **The economy and revenue are predicted to grow at a moderate pace in 2007-09**

The Economic and Revenue Forecast Council forecast for the 2007-09 Biennium, issued in June 2006, predicts weaker but still solid employment growth in the 2007-09 Biennium, averaging about 2.1 percent per year. Slightly weaker employment growth is expected next biennium as the U.S. expansion matures, the housing market slows, and the aerospace expansion levels off. However, Washington employment growth is still expected to significantly exceed national employment growth. The forecast predicts relatively strong state personal income growth in the 2007-09 Biennium of about 6.7 percent per year.

Reflecting solid growth in state personal income, revenue for the 2007-09 Biennium is projected to increase by about 5.0 percent annually. Expected revenue for the 2007-09 Biennium is \$29.463 billion.

**Population and caseload trends will affect the budget**

Washington's population increased an estimated 120,000 over the last year, largely due to people lured here by the state's bright employment climate.

The 2006 population estimate, prepared annually by the Office of Financial Management (OFM), places the Washington population at 6,375,600 as of April 1. OFM always forecasts population change to anticipate forthcoming changes in population-driven budget expenditures. Population growth based on migration is primarily driven by people seeking or taking new jobs in Washington. Washington's current growth tracks well with the state's economic recovery. As Washington's economy improved, annual migration climbed from only 22,000 in 2003 to 51,000 in 2005 and 81,000 in 2006. Annual population growth increased from less than one percent in 2003 to nearly two percent by 2006.

The latest forecast of the state population (November 2005) predicts a general population growth rate of 1.7 percent per year for Fiscal Year 2008 and Fiscal Year 2009.

Changes in the number of persons in selected age groups within the general population will place new demands on, and make new contributions to, the state's economy and government. Similarly, growth or stabilization of certain caseloads may have a significant impact on the amount of General Fund-State revenues available for other uses. There are several examples where population or caseload trends might affect the state budget:

- The K-12 school-age population, which totals over 1.1 million children, is forecast to remain relatively stable through 2010. This reduces the budget pressures associated with enrollment in the K-12 system, although other budget pressures remain. Growth for 2007 through 2009 is forecast at only 0.8 percent for the population age 5 through 17.
- The 85-and-over age group will increase by nearly 6,500 over the 2007-09 Biennium. This is an increase of nearly 3 percent per year for the next biennium and may impact long-term care caseloads.
- The college target population, ages 19 through 29, will increase by nearly 57,000 over the 2007-09 Biennium. This is an increase of nearly 3 percent per year and will continue the budget pressures in post-secondary education.

- The inmate population is likely to grow by 3 to 4.5 percent per year during the 2007-09 Biennium. This is between two and three times as fast as the state's general population.
- Medical assistance caseloads should increase somewhat faster than the general population. However, the cost per person in this caseload depends on medical inflation and other factors that determine budget pressures.

**Other factors will also create challenges for the 2007-09 Biennium.**

Several other factors will add to budget pressures for the 2007-09 Biennium:

- Under current law, an anticipated increase in state agency pension contributions will cost between \$400 million and \$600 million in the 2007-09 Biennium.
- Health care cost “inflation” is expected to continue to rise, though somewhat more slowly than last biennium, outpacing general inflation and population growth.

Pressures to balance the 2007-09 budget will be eased by recent strong revenue collections which is expected to result in a nearly \$800 million surplus in the General Fund at the end of the 2005-07 Biennium.

In addition, the 2006 supplemental budget passed by the Legislature last March set aside another \$900 million to address budget obligations in the 2007-09 Biennium.

**OFM prepares a six-year financial outlook**

The Office of Financial Management periodically examines the longer-term implications of the current General Fund-State budget, current policies affecting the budget, and revenue trends. The “six-year outlook” examines projected expenditures, revenues, and ending fund balance under a specific set of assumptions. A revised six-year outlook reflecting the June 2006 revenue and caseload forecast updates will be published at the end of July.